



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-08-10

INTERNAL ACCOUNTING
&
ADMINISTRATIVE CONTROL AUDIT
PAYROLL AND PERSONNEL CYCLE

OCTOBER 2009



Memorandum

To: H. Carriker, Deputy Director
Administration Division

Date: October 23, 2009

From: Brian A. Kwaker
Department of Fish and Game

Audit Control Number
WA-08-10

Subject: Audit Report – Payroll and Personnel Cycle

As mandated by the Financial Integrity and State Manager's Accountability Act (FISMA) and the State Administrative Manual (SAM) Section 20060, attached is the final audit report of the Department of Fish and Game's (Department) payroll and personnel cycle for the period July 1, 2008 through August 17, 2009. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department. This audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

We received the Department's response dated October 15, 2009 (Attachment A). The Department concurred with our findings and will take corrective actions as detailed in the response.

We would like to thank the Human Resources Branch staff for their time and cooperation. Should you have any questions, please contact me, at (916) 445-3780.

Attachment

cc: J. McCamman
C. Jones
H. Kiyan
K. Wroten
D. Instness
W. Fong
Audit File

REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-08-10

INTERNAL ACCOUNTING
&
ADMINISTRATIVE CONTROL AUDIT
PAYROLL AND PERSONNEL CYCLE

OCTOBER 2009

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	1
PRIOR AUDIT COVERAGE	2
BACKGROUND.....	3
SCOPE, METHODOLOGY, AND OBJECTIVES	4
CONCLUSION.....	5
FINDINGS AND RECOMMENDATIONS	6
FINDING 1 - LUMP-SUM DISTRIBUTIONS NOT ALWAYS CALCULATED CORRECTLY	7
FINDING 2 – PAYROLL ACCOUNTS RECEIVABLE NOT CLEARED TIMELY.....	8
FINDING 3 - EMPLOYEE LABOR HOUR VARIANCES BETWEEN TIMESHEETS,CALSTARS, AND PAYMENT HISTORY REPORTS.....	10
FINDING 4 - OVERSIGHT AND TRAINING OF REGIONAL PERSONNEL SPECIALISTS COULD BE IMPROVED	11
FINDING 5 - PRIOR REPORTED AUDIT ISSUES NOT YET CORRECTED.....	12
ATTACHMENT A – DEPARTMENT’S RESPONSE.....	16

SUMMARY

The Department of Fish and Game's (Department) Audits Branch (AB) performed an audit of the Department's payroll and personnel cycle. The audit was conducted to determine whether controls over the payroll and personnel function are adequate to ensure payroll transactions are initiated and recorded properly, State policies and procedures are followed regarding employee leave, and adequate procedures exist for employee appointments and separations. The audit found the internal control structure over the payroll and personnel functions to be adequate, except for the following areas:

- Lump-sum distributions not always calculated correctly (Finding 1);
- Payroll accounts receivable not cleared timely (Finding 2);
- Employee labor hour variances between timesheets, CALSTARS, and payment history reports (Finding 3);
- Oversight and training of regional personnel specialists could be improved (Finding 4); and
- Prior reported audit issues not yet corrected (Finding 5).

PRIOR AUDIT COVERAGE

On November 2, 2007, the AB issued audit report number WA-06-15 on the Department's payroll and personnel cycle. We followed up on all significant findings in this report and determined certain issues had not been fully resolved. As discussed in the Findings and Recommendations Section, Finding 5, the unresolved issues relate to incorrect lump-sum distributions and timesheet certifications. As appropriate, references were made to other recurring conditions previously reported in the Findings and Recommendations Section of this report.

BACKGROUND

To ensure that State agency internal control systems are in place and operative, the Legislature enacted "The Financial Integrity and State Manager's Accountability Act (FISMA) of 1983" (California Government Code Sections 13400 – 13407). FISMA places the responsibility for establishing and maintaining an agency's system of internal accounting and administrative controls with the agency head. State agencies are required to review their agencies' internal control structure every two years. Accordingly, as part of the continuing internal control audit requirement, the Department's headquarters payroll and personnel cycle was selected for audit.

The payroll and personnel function at the Department is decentralized. The Department headquarters Human Resources Branch (HRB) retains the responsibility over position control, workers compensation, and functional authority over the regions.

California Government Code (CGC), Section 13403, states that the elements of a satisfactory system of internal accounting and administrative controls include:

- Proper segregation of duties to safeguard State assets;
- Limiting access to State assets to authorized personnel who require those assets in the performance of their assigned duties;
- An adequate system of authorization and record keeping to provide effective accounting control over assets, liabilities, revenues, and expenditures;
- An established system of practices to be followed in performance of duties and functions;
- Hiring qualified personnel commensurate with their responsibilities; and
- An effective system of internal review.

Per CGC Section 1236, internal accounting and administrative control audits will be conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc. Lastly, the Department of Finance (DOF), Office of State Audits and Evaluations (OSAE) recommend the use of its *Audit Guide for the Evaluation of Internal Controls* to meet the internal accounting and administrative control auditing requirement.

SCOPE, METHODOLOGY, AND OBJECTIVES

The AB audited the Department's payroll and personnel cycle for the period July 1, 2008, through August 17, 2009. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

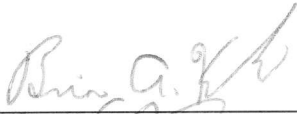
Using the DOF-OSAE's *Audit Guide for the Evaluation of Internal Controls*, the following procedures were performed during the audit: interviews of key personnel; the completion of checklists and internal control questionnaires; identifying controls strengths and weaknesses; the review of applicable laws and regulations; the performance of compliance testing of the payroll and personnel function; documenting and evaluating adequate separation of duties; the analysis of supporting documents, forms, and reports; and other audit procedures as required.

The objectives of the audit were to provide the Department's management with reasonable, but not absolute, assurance that:

- Controls over the payroll and personnel function are adequate to ensure payroll transactions are initiated and recorded properly;
- State policies and procedures are followed regarding employee leave; and
- Adequate procedures exist for employee appointments and separations.

CONCLUSION

In our opinion, the Department has properly supported the payroll and personnel cycle transactions for the period July 1, 2008, through August 17, 2009. The internal control structure over the payroll and personnel function at the Department in effect at August 17, 2009, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the processing of payroll and personnel transactions, except for the weaknesses described in the Findings and Recommendations Section of this audit report.



Brian A. Kwake, Chief
Audits Branch

October 20, 2009

Audit Staff: Meredith Taylor

FINDINGS
AND
RECOMMENDATIONS

FINDINGS AND RECOMMENDATIONS

FINDING 1

LUMP-SUM DISTRIBUTIONS NOT ALWAYS CALCULATED CORRECTLY

The Human Resources Branch (HRB) does not always calculate lump-sum distributions correctly. Ten employees were sampled for review. Two, or 20 percent, of the retirement calculations contained the following payment errors:

Employee #1: Underpaid for 12 hours, \$388.80

Employee #2: Underpaid for 12 hours, \$425.46

This is a recurring condition previously reported in audit report number WA 06-15 dated November 2, 2007, audit report number WA 04-12 dated December 9, 2005, and audit report number WA 02-36 dated December 31, 2003.

The California Government Code (CGC), Section 13403, requires that a satisfactory system of internal accounting and administrative controls include a system of authorization and record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Unless an adequate review system is in place, errors relative to the lump-sum payments may remain undetected which create underpayments or overpayments to the separated employees.

RECOMMENDATION

HRB should: coordinate with the Accounting Services Branch (ASB) to pay any underpayment owed to the separated employees; ensure staff is trained relative to the retirement calculation process; and supervisors perform an independent review of the separation lump-sum calculations prior to making the final payment.

Department's Response:

Transactions staff also audited and are correcting each lump sum calculation error listed in the audit report. The underpayments are being corrected and each affected employee will receive an adjusted balance within a few weeks of the date

of this response. Coordination with the Accounting Office (ASB) in issuing underpayments is not needed since the State Controller's system is linked to CalSTARS. Payment will show up on the CalSTARS records once it has issued.

Transactions management will provide additional "lump sum calculation" training to transactions staff in November 2009, and will issue periodic reminders that all separations with lump sum calculations need to be reviewed and approved by a Personnel Supervisor I or a Senior Personnel Specialist prior to processing. We will also strongly recommend that regional specialists have their lump sum calculations verified by a similar process prior to payment being issued.

The Transactions Manager will ensure that separations are monitored to verify that all lump sum calculations were reviewed. To accomplish this, Transactions staff will run a Management Information Report (MIRS) on a monthly basis to list all employees who have been separated during that month and will randomly review personnel files of separated employees to ensure the separation documents were reviewed and approved by the appropriate level staff. Results will be reported in writing to the Transactions Manager each month and exceptions will be reviewed at that time.

AB

Comments:

The HRB response satisfactorily addresses our recommendation.

FINDING 2

PAYROLL ACCOUNTS RECEIVABLE NOT CLEARED TIMELY

The Department does not clear payroll accounts receivable timely. On July 31, 2009, the Department had \$292,368.46 of outstanding payroll accounts receivable. Of this amount, \$289,038 was over 90 days old. In-addition, \$9,579 is over 3 years old and the oldest accounts receivable was dated October 27, 1989.

This is a recurring condition previously reported in audit report number WA 06-15 dated November 2, 2007, and WA 04-12 dated December 9, 2005.

SAM, Section 8776.6 states, "Each department will develop collection procedures that will assure prompt follow-up on receivables. . ."

Failure to resolve the outstanding payroll accounts receivable may result in the loss of State funds and overstatement of assets on the financial statements.

RECOMMENDATION

The Department should develop procedures requiring HRB and ASB to monitor outstanding payroll accounts receivable. HRB and ASB should investigate and clear all outstanding payroll accounts receivable. For those items that cannot be cleared, the Department should request relief of accountability through the Victim Compensation and Government Claims Board.

Department's
Response:

Transactions staff are working receiving consultation from staff in the Office of Training and Development (OTD) to develop and implement procedures for establishing and clearing Accounts Receivables (A/R's) in a timely manner. These procedures will be coordinated with ASB.

Considerations already identified in this process include: Transactions management will implement additional training for the Personnel Specialists to reduce the occurrence of A/R's. Staff will work to ensure the start of collection within 60 days after the A/R is incurred. By December 2009, we will also develop and implement a tracking system to monitor the collection letters that are sent.

Transactions staff will continue to work with ASB to identify the A/R's that can either be collected through Franchise Tax Board or written off, if uncollectable, per State Administrative Manual (SAM) guidelines. In the future, the goal will be to collect all A/R's within the three years allowed by ensuring timely notification and collection.

AB
Comments:

The HRB response satisfactorily addresses our recommendation.

FINDING 3

EMPLOYEE LABOR HOUR VARIANCES BETWEEN TIMESHEETS, CALSTARS, AND PAYMENT HISTORY REPORTS

Not all of the labor hours recorded on employees' timesheets agree with either the Department's California State Accounting and Reporting System (CALSTARS) labor reports or the payment history per State Controllers Office (SCO).

This is a recurring condition previously reported in audit report number WA 06-15 dated November 2, 2007.

For the period July 1, 2008 through August 17, 2009, 24 employees' timesheets were compared to the CALSTARS labor exception reports and the SCO payment history reports. We disclosed a variance of 16 hours for one of the files reviewed. Specifically, the 16 hours of Furlough time used in April as recorded on the employee timesheet was not posted to the CALSTARS report.

GC Section 13403 requires Departments maintain a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures.

Without proper record keeping practices, the Department cannot ensure the reliability of its financial management system data.

RECOMMENDATION

The Department should periodically reconcile total employee timesheet labor hours to the CALSTARS labor reports and the SCO payment history to ensure the accuracy and reliability of reported labor data.

Department's Response:

All amended time sheets will be sent back to ASB for CalSTARS adjustment. Regional and headquarters Personnel Specialists will be notified that they are to now provide a copy of any amended time sheets they receive to ASB. This new procedure will be sent by the Human Resource Branch (HRB) staff via an email to the Personnel Specialists and will be incorporated into the Transactions Desk Manual (TDM).

Regarding the variance in furlough hours, Personnel management will issue a reminder in the monthly HRB

newsletter that employees are expected to document furlough hours both in the Labor Distribution section and in the Absence Information section on the time sheet so the hours can be captured in CalSTARS by ASB staff. All Personnel Specialists (Regions and HQ) will be instructed to verify that furlough hours are reported in both sections and documented properly in the State Controller's (SCO) automated Leave Accounting System (LAS).

AB

Comments:

The HRB response satisfactorily addresses our recommendation.

FINDING 4

OVERSIGHT AND TRAINING OF REGIONAL PERSONNEL SPECIALISTS COULD BE IMPROVED

Specialists in the regions have had little to no ongoing training and they are not supervised nor their work reviewed by headquarters personnel supervisors or staff who are trained in the function of personnel related work.

SAM Section 20050 states in part, that satisfactory internal controls should include a system of internal accounting and administrative controls to regulate and guide operations effectively.

Furthermore, CGC Section 13403 states in part, that the elements of a satisfactory system of internal accounting and administrative controls, shall include, but are not limited to a system of authorization and record keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures; personnel of a quality commensurate with their responsibilities; and an effective system of internal review.

Without proper training, supervision and review of the personnel function in the regions, the Department is at risk of increased fraud and abuse.

RECOMMENDATION

Specialists in the regions should receive ongoing training and should report directly to the Personnel supervisors in headquarters as well as have their work reviewed by headquarters Personnel supervisors/managers.

Department's
Response:

HRB, and consequently the Transactions Manager, have neither a direct reporting relationship nor authority over the Personnel Specialists in the regions; oversight is limited. HRB provides quarterly training sessions (when funding is available); holds conference calls to discuss relevant issues, when appropriate; communicates important issues and changes via emails; sends out instruction regarding various control agencies memos to include HRB's interpretations; and refers the Regions Personnel Specialists to their various manuals to assist them in processing documents correctly and timely. Regional Specialists have been encouraged to submit complex work to HQ for review and to ask questions or ask for assistance, when needed.

Training is also offered by SCO, the Department of Personnel Administration (DPA), and the Public Employees Retirement System (CalPERS). Personnel management strongly encourages the Region Personnel Specialists to attend.

AB
Comments:

Although the HRB response satisfactorily addresses the finding of proper training to the Specialists in the regions, the AB disagrees with the HRB response and continues to recommend that Specialists in the regions report directly to the Personnel supervisors in headquarters as well as have their work reviewed by headquarters Personnel supervisors/managers.

FINDING 5

PRIOR REPORTED AUDIT ISSUES NOT YET CORRECTED

Incorrect lump sum distributions not resolved

The Department has not recovered the overpayment of lump-sum distributions identified in the prior audit report number WA 06-15 dated November 2, 2007, Finding 1 for two of the eight separated employees identified. The overpayments have not been resolved as follows:

Employee #1: overpaid 8 hours, \$295.20
Employee #2: overpaid 15 hours, \$785.10

The Department has not recovered the overpayment of lump-sum distributions identified in the prior audit report number WA 04-12 dated December 9, 2005, Finding 11. This was again reported in audit report number WA 06-15 dated November 2,

2007, Finding 10. The overpayments have not been resolved as follows:

Employee #1: Overpaid 18.75 hours, \$281.44
Employee #2: Overpaid 39 hours, \$1,114
Employee #3: Overpaid 5 hours, \$70.06
Employee #4: Overpaid 12 hours, \$379.80

GC, Section 13403, requires that a satisfactory system of internal accounting and administrative controls include a system of authorization and record keeping that is adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

SAM Section 8593.3, *Nonemployee Accounts Receivable*, states, "Each department will develop collection procedures that will assure prompt follow-up on receivables. Following are procedures and guidelines that departments will use for the collection of amounts owed to the State from nonemployees. These Procedures are in accordance with the Accounts Receivable Management Act as provided in GC Sections 16580-16586."

Unless corrective action is taken, the Department is at risk of not recovering erroneous lump-sum overpayments.

Recommendation

HRB should coordinate with the ASB to recover any overpayment, ensure staff is trained relative to the retirement calculation process, and supervisors perform an independent review of the lump sum calculations prior to making the final payment.

Department's Response:

The overpayments identified will be addressed and resolved, to the extent possible, not later than November 30, 2009. This issue relates to Finding #1 and correlates with responses provided for Findings #1 and 2 regarding correct processing of lump sum calculations for of separated employees.

HRB, in conjunction with ASB, has been working on resolving overpayments. HRB has an assigned staff person working with ASB to research and resolve prior year outstanding A/R's. ASB is writing off the overpayments where applicable.

HRB is working with OTD to develop an improved method to track progress on the collection of A/R's and we expect to have these overpayments resolved by end of December of 2009. DOF has recently released Budget Letter (09-37), which is designed to assist departments in the recovery of monies owed and to increase the limit to internally discharge A/R's, where needed. HRB will work with ASB and OTD in implementing these new guidelines

AB

Comments:

The HRB response satisfactorily addresses our recommendation.

Timesheet certifications

As of July 23, 2009, the Executive Director of the Commission stated there was no change in the timesheet certification process since the last audit except that he now fills out the Commissioners time sheets instead of the secretary.

This has been reported in audit report number WA 06-15 dated November 2, 2007, WA 04-12 dated December 9, 2005, and WA 02-36 dated December 31, 2003.

As previously reported the Commissioner's timesheets are not filled out by the Commissioners, but by the Executive Director of the Commission. The Executive Director has the Commissioners pre-sign 12 monthly time sheets in advance. Monthly, he charges hours to the individual time sheets based on his recollection.

SAM Section 8539, states, "When individual time records are maintained by employees, they will be signed by both the employee and the employee's supervisors. Persons certifying attendance reports cannot certify his/her own attendance report."

Recommendation

Employees should prepare and sign their own timesheets monthly, not a year in advance, and the timesheets should be properly certified by the appropriate official. Further, the days recorded as worked on the timesheet should be supported either

by an attendance meeting schedule or tracking system of what was performed, how many hours worked, and the day the service was provided.

Department's
Response:

HRB has no authority over the Fish and Game Commission or how staff handle the issue of recording attendance for Board Members. We can provide suggestions and encourage the staff to, at a minimum, use Board minutes to verify attendance prior to completing the time sheet for Board Members.

HRB would be pleased to provide written instructions to the Board Members to assist them in the process used to complete time sheets. We will offer to assist Fish and Game Commission staff to ensure time sheets are accurate and pay issued is appropriate for the time worked by Board Members.

AB
Comments:

The HRB response satisfactorily addresses our recommendation.

ATTACHMENT A

DEPARTMENT'S RESPONSE

State of California
Department of Fish and Game

Memorandum

To: Brian Kwake, Chief
Audits Branch

Date: October 15, 2009

From: Karen Wroten, Chief
Human Resource Branch

Subject: **Response to September 3, 2009 Audit Report –
Payroll and Personnel Cycle**

Finding 1: Lump-sum Distributions Not Always Calculated Correctly

Transactions staff also audited and are correcting each lump sum calculation error listed in the audit report. The underpayments are being corrected and each affected employee will receive an adjusted balance within a few weeks of the date of this response. Coordination with the Accounting Office (ASB) in issuing underpayments is not needed since the State Controller's system is linked to CalSTARS. Payment will show up on the CalSTARS records once it has issued.

Transactions management will provide additional "lump sum calculation" training to transactions staff in November 2009, and will issue periodic reminders that all separations with lump sum calculations need to be reviewed and approved by a Personnel Supervisor I or a Senior Personnel Specialist prior to processing. We will also strongly recommend that regional specialists have their lump sum calculations verified by a similar process prior to payment being issued.

The Transactions Manager will ensure that separations are monitored to verify that all lump sum calculations were reviewed. To accomplish this, Transactions staff will run a Management Information Report (MIRS) on a monthly basis to list all employees who have been separated during that month and will randomly review personnel files of separated employees to ensure the separation documents were reviewed and approved by the appropriate level staff. Results will be reported in writing to the Transactions Manager each month and exceptions will be reviewed at that time.

Finding 2: Payroll Accounts Receivable Not Cleared Timely

Transactions staff are working receiving consultation from staff in the Office of Training and Development (OTD) to develop and implement procedures for establishing and clearing Accounts Receivables (A/R's) in a timely manner. These procedures will be coordinated with ASB.

Considerations already identified in this process include: Transactions management will implement additional training for the Personnel Specialists to reduce the occurrence of A/R's. Staff will work to ensure the start of collection within 60 days after the A/R is incurred. By December 2009, we will also develop and implement a tracking system to monitor the collection letters that are sent.

Transactions staff will continue to work with ASB to identify the A/R's that can either be collected through Franchise Tax Board or written off, if uncollectable, per State Administrative Manual (SAM) guidelines. In the future, the goal will be to collect all A/R's within the three years allowed by ensuring timely notification and collection.

Finding 3: Employee Labor Hour Variances Between Timesheets, CalSTARS, and Payment History Reports

All amended time sheets will be sent back to ASB for CalSTARS adjustment. Regional and headquarters Personnel Specialists will be notified that they are to now provide a copy of any amended time sheets they receive to ASB. This new procedure will be sent by the Human Resource Branch (HRB) staff via an email to the Personnel Specialists and will be incorporated into the Transactions Desk Manual (TDM).

Regarding the variance in furlough hours, Personnel management will issue a reminder in the monthly HRB newsletter that employees are expected to document furlough hours both in the Labor Distribution section and in the Absence Information section on the time sheet so the hours can be captured in CalSTARS by ASB staff. All Personnel Specialists (Regions and HQ) will be instructed to verify that furlough hours are reported in both sections and documented properly in the State Controller's (SCO) automated Leave Accounting System (LAS).

Finding 4: Oversight and Training of Regional Personnel Specialists Could Be Improved

HRB, and consequently the Transactions Manager, have neither a direct reporting relationship nor authority over the Personnel Specialists in the regions; oversight is limited. HRB provides quarterly training sessions (when funding is available); holds conference calls to discuss relevant issues, when appropriate; communicates important issues and changes via emails; sends out instruction regarding various control agencies memos to include HRB's interpretations; and refers the Regions Personnel Specialists to their various manuals to assist them in processing documents correctly and timely.

Regional Specialists have been encouraged to submit complex work to HQ for review and to ask questions or ask for assistance, when needed.

Training is also offered by SCO, the Department of Personnel Administration (DPA), and the Public Employees Retirement System (CalPERS). Personnel management strongly encourages the Region Personnel Specialists to attend.

Finding 5: Prior Reported Audit Issues Not Yet Corrected

Incorrect Lump Sum Distributions Not Resolved:

The overpayments identified will be addressed and resolved, to the extent possible, not later than November 30, 2009. This issue relates to Finding #1 and correlates with responses provided for Findings #1 and 2 regarding correct processing of lump sum calculations for of separated employees.

HRB, in conjunction with ASB, has been working on resolving overpayments. HRB has an assigned staff person working with ASB to research and resolve prior year outstanding A/R's. ASB is writing off the overpayments where applicable. .

HRB is working with OTD to develop an improved method to track progress on the collection of A/R's and we expect to have these overpayments resolved by end of December of 2009. DOF has recently released Budget Letter (09-37), which is designed to assist departments in the recovery of monies owed and to increase the limit to internally discharge A/R's, where needed. HRB will work with ASB and OTD in implementing these new guidelines.

Timesheet Certifications:

HRB has no authority over the Fish and Game Commission or how staff handle the issue of recording attendance for Board Members. We can provide suggestions and encourage the staff to, at a minimum, use Board minutes to verify attendance prior to completing the time sheet for Board Members.

HRB would be pleased to provide written instructions to the Board Members to assist them in the process used to complete time sheets. We will offer to assist Fish and Game Commission staff to ensure time sheets are accurate and pay issued is appropriate for the time worked by Board Members.